

**REPORT OF THE AUDIT OF THE  
KNOX COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2000**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
[www.kyauditor.net](http://www.kyauditor.net)

**144 CAPITOL ANNEX  
FRANKFORT, KY 40601  
TELEPHONE (502) 564-5841  
FACSIMILE (502) 564-2912**



**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**KNOX COUNTY FISCAL COURT**

**For The Fiscal Year Ended**  
**June 30, 2000**

The Auditor of Public Accounts has completed the Knox County Fiscal Court audit for fiscal year ended June 30, 2000. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

**Financial Condition:**

Cash balances increased by \$663,367 from the prior fiscal year, resulting in a cash surplus of \$1,537,532 as of June 30, 2000. Revenues increased by \$201,519 from the prior year and disbursements decreased by \$548,095.

**Receivables:**

Total receivable as of June 30, 2000, was \$285,274. This receivable is scheduled to be forgiven by the fiscal court as long as the debtor complies with employment terms stated in the loan agreement.

**Debt Obligations:**

Total bond debt principal as of June 30, 2000, was \$3,384,000. The county has cash reserves of \$500,950, which results in future collections of \$4,949,092 being needed over the next 23 years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$108,595 as of June 30, 2000. Future principal and interest payments of \$113,805 are needed to meet these obligations.

Long-term participation principal agreements totaled \$404,237 as of June 30, 2000. Future collections of \$625,484 are needed over the next 15 years to pay all debt principal and interest.

There was a note agreement with an outstanding balance of \$41,838 at June 30, 2000.

**Report Comments:**

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- The County Should Pay Off All Note Agreements Within The Fiscal Year In Which The Notes Are Issued
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The County Should Properly Account For Payroll
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year
- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Invoices In A Timely Manner
- Lacked Adequate Segregation Of Duties

**Deposits:**

The fiscal court's deposits were not insured and collateralized by bank securities or bonds.



<u>CONTENTS</u>	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT .....	1
COUNTY OFFICIALS .....	3
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES ARISING FROM CASH TRANSACTIONS .....	7
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES.....	12
NOTES TO FINANCIAL STATEMENTS .....	16
SUPPORTING SCHEDULES:	
COMPARATIVE SCHEDULE OF BUDGETED TO ACTUAL OPERATING REVENUE.....	29
SCHEDULE OF OPERATING REVENUE .....	33
COMPARATIVE SCHEDULE OF FINAL BUDGET AND BUDGETED EXPENDITURES .....	37
REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS .....	41
COMMENTS AND RECOMMENDATIONS .....	45
APPENDIX A:	
CERTIFICATION OF COMPLIANCE - LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS	





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Raymond C. Smith, Knox County Judge/Executive  
Honorable Gerald K. West, Former Knox County Judge/Executive  
Members of the Knox County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and fund balances arising from cash transactions of Knox County, Kentucky, as of June 30, 2000, and the related statement of cash receipts, cash disbursements, and changes in cash balances for the year then ended. These financial statements are the responsibility of the Knox County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Knox County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and fund balances arising primarily from cash transactions as of June 30, 2000 of Knox County, Kentucky, and the revenues received and expenditures paid for the year then ended, in conformity with the modified cash basis of accounting.



To the People of Kentucky

Honorable Ernie Fletcher, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Debra Eucker, Commissioner, Department of Law, Revenue Cabinet

Honorable Raymond C. Smith, Knox County Judge/Executive

Honorable Gerald K. West, Former Knox County Judge/Executive

Members of the Knox County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 4, 2003, on our consideration of Knox County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Knox County, Kentucky. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- The County Should Pay Off All Note Agreements Within The Fiscal Year In Which The Notes Are Issued
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The County Should Properly Account For Payroll
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year
- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Invoices In A Timely Manner
- Lacked Adequate Segregation Of Duties

Respectfully submitted,



Edward B. Hatchett, Jr.

Auditor of Public Accounts

Audit fieldwork completed -  
August 4, 2003



KNOX COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2000

**Fiscal Court Members:**

Gerald West	County Judge/Executive
Carson Gilbert	Magistrate
Willard Bargo	Magistrate
Bob MacMeritt	Magistrate
Larry Jones	Magistrate
Guilio Cima	Magistrate

**Other Elected Officials:**

David Jorjani	County Attorney
Preston Smith	Jailer
Mike Corey	County Clerk
Greg Helton	Circuit Court Clerk
Wilbur Bingham	Sheriff
Roger Deaton	Property Valuation Administrator
Jerry Garland	Coroner

**Appointed Personnel:**

Wanda F. Moore	County Treasurer and Occupational Tax Collector
Kim Smith	Finance Officer



STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS



KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES,  
AND FUND BALANCES ARISING FROM CASH TRANSACTIONS

June 30, 2000

Assets and Other Resources

Assets

General Fund Type

General Fund:

Cash	\$	285,596	
------	----	---------	--

Road and Bridge Fund:

Cash		108,368	
------	--	---------	--

Jail Fund:

Cash		11,423	
------	--	--------	--

Local Government Economic Assistance Fund:

Cash	\$	216,818		
Due from General Fund (Note 9)		28,000	244,818	\$ 650,205

Special Revenue Fund Type

Timberland Tax Fund:

Cash	\$	1,814	
------	----	-------	--

Courthouse Non-Voted Fund:

Cash		8,978	
------	--	-------	--

Manufacturing Services Fund:

Cash	\$	13,232		
Note Receivable (Note 4)		285,276	298,508	

Kay Jay Recreation Fund:

Cash		669	
------	--	-----	--

911 Fund:

Cash		381,477	
------	--	---------	--

Solid Waste Fund:

Cash		3,366	
------	--	-------	--

Middle Richland Fund:

Cash		1,816	
------	--	-------	--

Community Development Block Grant Fund:

Cash		944	
------	--	-----	--

JAIBG Fund:

Cash		2,145		699,717
------	--	-------	--	---------

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS  
June 30, 2000  
(Continued)

Debt Service Fund Type

Knox County Public Properties Corporation Fund:

1991 Bond Issue (Note 6B):

Debt Service Cash	\$ 75,000	
Sinking Fund Cash	<u>1,687</u>	\$ 76,687

1997 Bond Issue (Note 6C):

Debt Service Cash	\$ 223,727	
Sinking Fund Cash	200,499	
Costs of Issuance Cash	<u>37</u>	<u>424,263</u> \$ 500,950

Other Resources

General Fund Type

Road and Bridge Fund:

Amounts to Be Provided in Future Years for Kentucky Area		
Development District Lease Principal (Note 8A)	\$ 100,000	
Amounts to Be Provided in Future Years for Road Garage		
Lease Principal (Note 8B)	<u>8,595</u>	108,595

Jail Fund:

Amounts to Be Provided in Future Years for Jail Participation Agreement		
Bond Principal (Note 7)		404,237

Debt Service Fund Type

Public Properties Corporation Fund:

1981 Bond Issue (Note 6A):

Amounts to be Provided in Future Years for Bond Principal	\$ 519,000	
-----------------------------------------------------------	------------	--

1991 Bond Issue (Note 6B):

Amounts to be Provided in Future Years for Bond Principal	233,313	
-----------------------------------------------------------	---------	--

1997 Bond Issue (Note 6C):

Amounts to be Provided in Future Years for Bond Principal	<u>2,130,737</u>	<u>2,883,050</u>
-----------------------------------------------------------	------------------	------------------

Total Assets and Other Resources		<u>\$ 5,246,754</u>
----------------------------------	--	---------------------

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS  
June 30, 2000  
(Continued)

Liabilities and Fund Balances

Liabilities

General Fund Type

General Fund:

Due to LGEA Fund (Note 9)		\$	28,000
---------------------------	--	----	--------

Road and Bridge Fund:

Kentucky Area Development District Lease - Principal (Note 8A)	\$	100,000	
----------------------------------------------------------------	----	---------	--

Road Garage Lease Principal (Note 8B)		8,595	
---------------------------------------	--	-------	--

Note Payable (Note 5)		41,838	
-----------------------	--	--------	--

Jail Fund:

Jail Participation Agreement - Bond Principal Payments (Note 7)		<u>404,237</u>	\$ 554,670
-----------------------------------------------------------------	--	----------------	------------

Debt Service Fund Type

Public Properties Corporation Fund:

1981 Bond Issue:

Bond Principal Not Matured (Note 6A)	\$	519,000	
--------------------------------------	----	---------	--

1991 Bond Issue:

Bond Principal Not Matured (Note 6B)		310,000	
--------------------------------------	--	---------	--

1997 Bond Issue:

Bond Principal Not Matured (Note 6C)		<u>2,555,000</u>	3,384,000
--------------------------------------	--	------------------	-----------

Fund Balances

Reserved:

Special Revenue Fund Type

Timberland Tax Fund	1,814	
---------------------	-------	--

Courthouse Non-Voted Fund	8,978	
---------------------------	-------	--

Manufacturing Services Fund	298,508	
-----------------------------	---------	--

Kay Jay Recreation Fund	669	
-------------------------	-----	--

911 Fund	381,477	
----------	---------	--

Solid Waste Fund	3,366	
------------------	-------	--

Middle Richland Fund	1,816	
----------------------	-------	--

Community Development Block Grant Fund	944	
----------------------------------------	-----	--

JAIBG Fund	<u>2,145</u>	\$ 699,717
------------	--------------	------------

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF ASSETS, LIABILITIES, AND FUND BALANCES  
ARISING FROM CASH TRANSACTIONS  
June 30, 2000  
(Continued)

Liabilities and Fund Balances (Continued)

Fund Balances (Continued)

Unreserved:

General Fund Type

General Fund	\$	285,596	
Road and Bridge Fund		66,530	
Jail Fund		11,423	
Local Government Economic Assistance Fund		<u>216,818</u>	\$ <u>580,367</u>
Total Liabilities and Fund Balances			<u>\$ 5,246,754</u>

The accompanying notes are an integral part of the financial statements.



STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

KNOX COUNTY  
STATEMENT OF CASH RECEIPTS,  
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2000

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 4,771,807	\$ 2,957,068	\$ 1,111,320	\$ 110,004
AOC Bond Payments	186,300			
Hospital Bond Payments	53,372			
Transfers In	1,482,398	121,720	745,000	523,000
Total Cash Receipts	<u>\$ 6,493,877</u>	<u>\$ 3,078,788</u>	<u>\$ 1,856,320</u>	<u>\$ 633,004</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 4,034,247	\$ 1,888,823	\$ 1,423,099	\$ 518,942
Transfers Out	1,482,398	989,000	307,678	94,000
Borrowed Money - Repayment	19,284		19,284	
Bonds:				
Principal Paid	109,000			
Interest Paid	167,135			
Trustee Fees	385			
Jail Participation Agreement:				
Principal Paid	15,912			15,912
Garage Lease Principal Payments	2,149		2,149	
Total Cash Disbursements	<u>\$ 5,830,510</u>	<u>\$ 2,877,823</u>	<u>\$ 1,752,210</u>	<u>\$ 628,854</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 663,367	\$ 200,965	\$ 104,110	\$ 4,150
Cash Balance - July 1, 1999	<u>\$ 874,165</u>	<u>\$ 84,567</u>	<u>\$ 4,258</u>	<u>\$ 7,273</u>
Cash Balance - June 30, 2000	<u>\$ 1,537,532</u>	<u>\$ 285,532</u>	<u>\$ 108,368</u>	<u>\$ 11,423</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
CHANGES IN CASH BALANCES  
For The Fiscal Year Ended June 30, 2000  
(Continued)

General Fund Types	Special Revenue Fund Types				
Local Government Economic Assistance Fund	Timberland Tax Fund	Courthouse Non-Voted Fund	Manufacturing Services Fund	Kay Jay Recreation Fund	911 Fund
\$ 328,992	\$ 3,102	\$ 395	\$ 583	\$ 21	\$ 186,528
<u>\$ 328,992</u>	<u>\$ 3,102</u>	<u>\$ 395</u>	<u>\$ 583</u>	<u>\$ 21</u>	<u>\$ 186,528</u>
\$ 122,543 91,000	\$ 4,894	\$	\$ 34	\$ 261	\$ 27,926 720
<u>\$ 213,543</u>	<u>\$ 4,894</u>	<u>\$</u>	<u>\$ 34</u>	<u>\$ 261</u>	<u>\$ 28,646</u>
\$ 115,449	\$ (1,792)	\$ 395	\$ 549	\$ (240)	\$ 157,882
\$ 101,369	\$ 3,606	\$ 8,583	\$ 12,683	\$ 909	\$ 223,595
<u>\$ 216,818</u>	<u>\$ 1,814</u>	<u>\$ 8,978</u>	<u>\$ 13,232</u>	<u>\$ 669</u>	<u>\$ 381,477</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

	<u>Special Revenue Fund Types</u>			
	<u>Solid Waste Fund</u>	<u>Middle Richland Fund</u>	<u>Community Development Block Grant Fund</u>	<u>JAIBG Fund</u>
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 40,339	\$ 58	\$	\$ 8,660
AOC Bond Payments				
Hospital Bond Payments				
Transfers In				
Total Cash Receipts	<u>\$ 40,339</u>	<u>\$ 58</u>	<u>\$</u>	<u>\$ 8,660</u>
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 41,208	\$	\$ 2	\$ 6,515
Transfers Out				
Borrowed Money - Repayment				
Bonds:				
Principal Paid				
Interest Paid				
Trustee Fees				
Jail Participation Agreement:				
Principal Paid				
Garage Lease Principal Payments				
Total Cash Disbursements	<u>\$ 41,208</u>	<u>\$</u>	<u>\$ 2</u>	<u>\$ 6,515</u>
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ (869)	\$ 58	\$ (2)	\$ 2,145
Cash Balance - July 1, 1999*	<u>\$ 4,235</u>	<u>\$ 1,758</u>	<u>\$ 946</u>	
Cash Balance - June 30, 2000	<u><u>\$ 3,366</u></u>	<u><u>\$ 1,816</u></u>	<u><u>\$ 944</u></u>	<u><u>\$ 2,145</u></u>

\*The cash balances of the Solid Waste and Middle Richland Funds at July 1, 1999, do not agree to the ending balances shown in the prior year audit report. The differences are due to errors in reporting the balances at June 30, 1999.

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
 STATEMENT OF CASH RECEIPTS, CASH DISBURSEMENTS, AND  
 CHANGES IN CASH BALANCES  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

Debt Service Fund Types		
Knox County Public Properties Corporation Fund - 1981 Bond Issue	Knox County Public Properties Corporation Fund - 1991 Bond Issue	Knox County Public Properties Corporation Fund - 1997 Bond Issue
\$	\$ 3,810	\$ 20,927
53,372		186,300
	92,678	
<u>\$ 53,372</u>	<u>\$ 96,488</u>	<u>\$ 207,227</u>
\$	\$	\$
39,000	70,000	
14,372	25,788	126,975
	385	
<u>\$ 53,372</u>	<u>\$ 96,173</u>	<u>\$ 126,975</u>
\$	\$ 315	\$ 80,252
	\$ 76,372	\$ 344,011
<u>\$</u>	<u>\$ 76,687</u>	<u>\$ 424,263</u>

The accompanying notes are an integral part of the financial statements.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS

June 30, 2000

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Knox County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Knox County Public Properties Corporation as part of the reporting entity.

The Knox County Public Properties Corporation (the Corporation) is a legally separate entity established to provide long-term debt service for the fiscal court. The Corporation's governing body consists entirely of fiscal court members. Therefore, management must include the Corporation as a component unit, and the Corporation's financial activity has been blended with that of the fiscal court.

Additional - Knox County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Knox County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Knox County Fiscal Court's fund types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Knox County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Timberland Tax Fund, Courthouse Non-Voted Fund, Manufacturing Services Fund, Kay Jay Recreation Fund, 911 Fund, Solid Waste Fund, Middle Richland Fund, Community Development Block Grant Fund, and JAIBG Fund of the Fiscal Court are reported as Special Revenue Fund Types.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Knox County Public Properties Corporation Fund – 1981 Bond Issue, 1991 Bond Issue, and 1997 Bond Issue. Debt service is provided through annual payments made directly by the Knox County Hospital Operating Board for the 1981 Bond Issue. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year for the 1991 bond issue. Debt service is provided through annual payments made directly by the Administrative Office of the Courts for the 1997 Bond Issue.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, long-term obligations, and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

D. Legal Compliance - Budget

The Knox County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget (Continued)

Formal budgets are not adopted for the Knox County Public Properties Corporation Fund 1981 Bond Issue, 1991 Bond Issue, and the 1997 Bond Issue (Debt Service Fund Type). Bond indentures and other relevant contractual provisions require specific payments to and from the bond issues annually. Transfers are budgeted in the General Fund Type for the 1991 Bond Issue. The payments for the 1981 Bond Issue are made directly by the Knox County Hospital Operating Corporation. The payments for the 1997 Bond Issue are made directly by the Administrative Office of the Courts. The Department for Local Government does not require this fund to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. Investments may include certificates of deposit on the financial statements; however, for the purpose of disclosing credit risk (Note 3), investments exclude certificates of deposit.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organizations

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organization's governing board. Based on these criteria, the Knox County Ambulance Service and the Knox County Utility Commission are considered related organizations of Knox County Fiscal Court.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 7.28 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report.



KNOX COUNTY  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2000  
 (Continued)

Note 3. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the county securing the county's interest in the collateral.

The county's deposits are categorized below to give an indication of the level of risk assumed by the county official as of June 30, 2000.

	<u>Bank Balance</u>
Collateralized with securities held by pledging depository institution in the county's name	\$ 39,532
FDIC insured	<u>200,000</u>
Total Deposits	<u><u>\$ 239,532</u></u>

Note 4. Receivable

On January 29, 1986, the county entered into an agreement with Manufacturing Service Corporation to loan the corporation a \$750,000 Community Development Block Grant. The loan was to be used to purchase equipment for a new manufacturing plant. Terms of the agreement stipulated monthly payments of \$6,329 over a 15-year period. On August 8, 1996, the fiscal court agreed to forgive the balance of the loan, \$713,187, over a five-year period provided 212 jobs are maintained with an increase of an additional 25 employees within 12 months from the date of forgiveness. Manufacturing Service Corporation has complied with terms of this agreement and the fiscal court has forgiven a proportional amount of the loan each year. As of June 30, 2000, the principal balance due was \$285,276. Future amounts due to the county are as follows:

June 30, 2000	\$ 142,638
June 20, 2001	<u>142,638</u>
Total	<u><u>\$ 285,276</u></u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 5. Short-Term Debt

On April 10, 1997, the Knox County Fiscal Court borrowed \$96,727 from Union National Bank to purchase a 1996 road grader. The money was borrowed at a 5.45% interest rate and to be repaid over a period of five years. The loan agreement requires semi-annual payments of \$11,182. As of June 30, 2000, the principal balance outstanding was \$41,838.

Note 6. Long-Term Debt

A. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1981

In October 1981, the Knox County Public Properties Corporation obtained financing in the form of various construction loans from the Farmers Home Administration (FmHA), an agency of the United States Department of Agriculture, through the issuance of First Mortgage Bonds in the amount of \$1,000,000. The Knox County Hospital Operating Corporation leases all hospital property and equipment from the Municipal Properties Corporation for an annual rental equal to the amounts required under the Mortgage Deed of Trust. Annual rentals approximate amounts due for principal and interest on the bonds.

Under the terms of the Mortgage Deed of Trust, FmHA purchased the entire bond issue at a five percent (5%) interest rate, payable each January 1, and July 1 beginning July 1, 1982. The entire principal is due on January 1, 2010. The bonds are secured by a mortgage lien against all land, buildings and equipment of the Hospital including all rents and profits derived from such properties.

On September 21, 1987, the Farmers Home Administration (FmHA), notified the Hospital that the Omnibus Budget Reconciliation Act of 1986 required FmHA to sell a portion of its loan portfolio. In September, 1987, the Hospital's FmHa loan was sold to GMAC Commercial Mortgage, but the Hospital's obligations and covenants made under the original loan agreement and debt instrument remained unaffected by this sale.

The principal balance outstanding at June 30, 2000, was \$519,000. The County currently is not in compliance with the terms of the agreement. The debt service requirements are presented as follows:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 01	5%	\$ 23,850	\$ 0
FY 02	5%	23,850	0
FY 03	5%	23,850	0
FY 04	5%	23,850	0
FY 05	5%	23,850	0
FY 06 - FY 10	5%	<u>109,313</u>	<u>519,000</u>
Total		<u>\$ 228,563</u>	<u>\$ 519,000</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 6. Long-Term Debt (Continued)

B. Knox County Municipal Public Properties Corporation - Revenue Bonds Series 1991

The county is liable for \$310,000 of outstanding bonds issued on August 1, 1991, at various interest rates by the Knox County Municipal Public Properties Corporation. Principal payments are due each year on August 1, in the amounts indicated below. Interest is due on the bonds each February 1 and August 1, beginning February 1, 1992. Future principal and interest requirements are:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001	7.50%	\$ 20,438	\$ 75,000
2002	7.50%	14,626	80,000
2003	7.50%	<u>11,626</u>	<u>155,000</u>
Total		<u>\$ 46,690</u>	<u>\$ 310,000</u>

C. Knox County Municipal Properties Corporation - Revenue Bonds Series 1997

On September 5, 1996, the Knox County Kentucky Public Properties Corporation, Administrative Office of the Courts (AOC), and the county entered into a lease agreement for the purpose of constructing the Justice Center, which is attached to the courthouse, and obtaining office rental space for the AOC at the Justice Center. Subsequently, on December 17, 1997, the Knox County Justice Center Corporation issued First Mortgage Revenue Bonds in order to construct the Knox County Justice Center.

The Knox County Justice Center Corporation and the Kentucky Area Development Districts Financing Trust are acting as agents for the AOC in order to plan, design, construct, manage and maintain the Justice Center. The Knox County Kentucky Public Properties Corporation and the Kentucky Area Development Districts Financing Trust expect annual rentals from the AOC for use of the Justice Center to be in the full amount of the annual principal and interest requirements of the bonds. Under terms of the lease, the AOC has agreed to pay directly to the paying agent bank, the use allowances payments as provided in the lease. The lease agreement is renewable each year. The Knox County Kentucky Public Properties Corporation and the Kentucky Area Development Districts Financing Trust are in reliance upon the use of allowance payment in order to meet the debt service for the bonds.

The use allowance payment commences with occupancy of the Justice Center by the AOC. The AOC with the execution of the lease has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until September 1, 2022, but the lease does not legally obligate the AOC to do so.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 6. Long-Term Debt (Continued)

C. Knox County Municipal Properties Corporation - Revenue Bonds Series 1997 (Continued)

The debt service requirements for the First Mortgage Revenue Bonds are presented as follows:

<u>Due Date</u>	<u>Interest Rate</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
FY 01	4.25%	\$ 125,594	\$ 65,000
FY 02	4.25%	122,831	65,000
FY 03	4.35%	120,036	65,000
FY 04	4.35%	117,209	65,000
FY 05	4.40%	114,145	75,000
FY 06 - FY 10	Various	515,588	425,000
FY 11 - FY 15	Various	395,616	550,000
FY 16 - FY 20	5.20%	236,650	715,000
FY 21 - FY 23	5.20%	43,120	530,000
Total		<u>\$ 1,790,789</u>	<u>\$ 2,555,000</u>

Note 7. Long-Term Participation Agreement

The Kentucky Local Correctional Facilities Construction Authority, an independent corporate agency and instrumentality of the Commonwealth of Kentucky, issues revenue bonds for the purpose of construction and reconstruction of jail facilities. The Authority issued \$1,378,870 of revenue bonds at various interest rates, of which the county has agreed to pay \$551,095 principal and a proportional share of interest on the issue. Revenue bonds outstanding as of June 30, 2000, totaled \$404,237. Principal payments are due each year on October 1 in the amounts indicated below. Interest payments are due each year on October 1 and April 1. Remaining debt service requirements are as follows:

<u>Fiscal Year Ended June 30</u>	<u>Scheduled Interest</u>	<u>Scheduled Principal</u>
2001	\$ 25,095	\$ 16,921
2002	23,989	17,994
2003	22,812	19,135
2004	21,560	20,348
2005	20,229	21,639
2006 to 2010	78,026	130,600
2011 to 2015	29,536	177,600
	<u>\$ 221,247</u>	<u>\$ 404,237</u>

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 8. Capital Lease - Purchase Agreements

A. Kentucky Area Development District Financing Trust - Road Improvements

On January 8, 1998, the county entered into a lease-purchase agreement with the Kentucky Area Development District Financing Trust for the purpose of road improvements. Terms of the lease agreement stipulate a three-year repayment schedule with interest payments due each year on May 20 and November 20, in the totals indicated below. Remaining scheduled debt service requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Scheduled</u> <u>Interest</u>	<u>Scheduled</u> <u>Principal</u>
2001	<u>\$ 5,210</u>	<u>\$ 100,000</u>

B. Commonwealth of Kentucky - Road Garage Lease

On February 27, 1985, the county entered into a lease-purchase agreement with the Commonwealth of Kentucky for the purpose of obtaining a road garage. Terms of the agreement stipulate a twenty-year repayment schedule with an annual principal payment of \$2,149. The county may purchase the road garage at any time for a specified price of \$42,975 less the total of any prior payments. Principal payments are due each year on March 1, in the amount indicated below. Remaining debt service requirements are as follows:

<u>Fiscal Year Ended</u> <u>June 30</u>	<u>Principal</u> <u>Amount</u>
2001	\$ 2,149
2002	2,149
2003	2,149
2004	<u>2,148</u>
Totals	<u>\$ 8,595</u>

Note 9. Interfund Transfers

\$28,000 was transferred from the Local Government Economic Assistance (LGEA) Fund to the General Fund during a prior fiscal year. The monies were not transferred back to the LGEA Fund; therefore, the General Fund owes the LGEA Fund \$28,000.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 10. Lease-Purchase Agreement

The county has entered into the following lease-purchase agreements:

<u>Description</u>	<u>Purchase Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Amount</u>
Tractor and Mower - Road	9/22/1998	9/22/2003	5.90%	\$ 27,479

Note 11. Related Party Transactions

The county rented office space from Magistrate Bob “Mac” Merritt’s brother. During fiscal year ending June 30, 2000, payments for office rental totaled \$2,400.

Note 12. Subsequent Events

A. Commitments and Contingencies

The Knox County Hospital Operating Board issued \$11,540,000 of bonds on January 18, 2001, for the construction of a new hospital. The Knox County Fiscal Court is not responsible for this debt. The hospital then borrowed \$495,000 from the bank for construction work on the hospital, which the county was contingently responsible for. The hospital operating board then issued an additional \$1,115,000 of bonds on May 31, 2001 (part of the proceeds were used to pay off the \$495,000 note) and \$3,600,000 of bonds on February 12, 2002, for the completion of construction on the new Knox County Hospital (total of the two bond issues was \$4,715,000). The County could be contingently responsible for this debt. The county is currently in the process of determining their liability associated with the debt.

B. Knox County Jail

The Knox County Judge/Executive was informed by the Department of Corrections that the Knox County Jail was being closed on September 30, 2002, due to it being unsafe to house inmates. The Knox County Fiscal Court declared a State of Emergency in order for the County Judge/Executive to take necessary action to get the jail in compliance with the Department of Corrections guidelines. The Department of Corrections allowed the Knox County Jail to reopen on November 27, 2002, after passing a follow-up inspection. The fiscal court then closed the jail on June 2, 2003, for public safety issues. There is pending litigation related to the closing of the jail between the fiscal court, jailer, and the sheriff.

Note 13. Insurance

For the fiscal year ended June 30, 2000, Knox County was a member of the Kentucky Association of Counties’ All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials’ errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

KNOX COUNTY  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2000  
(Continued)

Note 14. Jail Canteen Fund

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations.

The Knox County Jail Canteen account had a beginning balance of \$10,088, receipts of \$4,761, and expenditures of \$123. This leaves an ending balance of \$14,726 as of June 30, 2000.

THIS PAGE LEFT BLANK INTENTIONALLY



COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE



KNOX COUNTY  
COMPARATIVE SCHEDULE OF  
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2000

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Type</u>			
General Fund	\$ 3,186,738	\$ 2,957,068	\$ (229,670)
Road and Bridge Fund	1,149,305	1,111,320	(37,985)
Jail Fund	151,146	110,004	(41,142)
Local Government Economic Assistance Fund	243,138	328,992	85,854
<u>Special Revenue Fund Type</u>			
Timberland Tax Fund		3,102	3,102
Courthouse Non-Voted Fund		395	395
Manufacturing Services Fund		583	583
Kay Jay Recreation Fund		21	21
911 Fund	184,000	186,528	2,528
Solid Waste Fund	44,691	40,339	(4,352)
Middle Richland Fund		58	58
JAIBG Fund	15,000	8,660	(6,340)
Totals	<u>\$ 4,974,018</u>	<u>\$ 4,747,070</u>	<u>\$ (226,948)</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above		\$ 4,974,018	
Add: Budgeted Prior Year Surplus		179,845	
Less: Other Financing Uses		<u>(130,023)</u>	
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures		<u>\$ 5,023,840</u>	

THIS PAGE LEFT BLANK INTENTIONALLY

SCHEDULE OF OPERATING REVENUE



KNOX COUNTY  
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2000

Revenue Categories	<u>GOVERNMENTAL FUND TYPES</u>			
	Totals (Memorandum Only)	General Fund Type	Special Revenue Fund Type	Debt Service Fund Type
Taxes	\$ 1,973,106	\$ 1,798,845	\$ 174,261	\$
In Lieu Tax Payments	8	8		
Licenses and Permits	292	292		
Intergovernmental Revenues	2,641,214	2,594,269	46,945	
Miscellaneous Revenues	89,398	87,344	2,054	
Interest Earned	<u>67,789</u>	<u>26,626</u>	<u>16,426</u>	<u>24,737</u>
Total Operating Revenue	<u>\$ 4,771,807</u>	<u>\$ 4,507,384</u>	<u>\$ 239,686</u>	<u>\$ 24,737</u>

THIS PAGE LEFT BLANK INTENTIONALLY



COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES



KNOX COUNTY  
COMPARATIVE SCHEDULE OF  
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2000

Expenditure Categories	GENERAL FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 1,371,416	\$ 1,239,129	\$ 132,287
Protection to Persons and Property	597,749	465,054	132,695
General Health and Sanitation	23,205	21,866	1,339
Social Services	1,200	1,200	
Roads	1,186,727	1,070,685	116,042
Other Transportation Facilities and Services	61,810	72,541	(10,731)
Debt Service	41,582	36,162	5,420
Administration	1,466,483	1,046,770	419,713
Total Operating Budget - General Fund Type	\$ 4,750,172	\$ 3,953,407	\$ 796,765
Other Financing Uses:			
Transfers to Knox County			
Public Properties Corporation			
Principal	70,000	70,000	
Interest	22,678	22,678	
Borrowed Money-			
Notes Payable - Principal	19,284	19,284	
Garage Lease	2,149	2,149	
Jail Participation Agreement - Principal	15,912	15,912	
TOTAL BUDGET - GENERAL FUND TYPE	\$ 4,880,195	\$ 4,083,430	\$ 796,765

KNOX COUNTY  
 COMPARATIVE SCHEDULE OF  
 FINAL BUDGET AND BUDGETED EXPENDITURES  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

Expenditure Categories	SPECIAL REVENUE FUND TYPE		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 23,971	\$ 36	\$ 23,935
Protection to Persons and Property	185,278	32,820	152,458
General Health and Sanitation	44,191	41,033	3,158
Social Services	14,646	6,690	7,956
Recreation and Culture	2,400	261	2,139
Administration	3,182		3,182
<b>TOTAL OPERATING BUDGET - SPECIAL REVENUE FUND TYPE</b>	<b>\$ 273,668</b>	<b>\$ 80,840</b>	<b>\$ 192,828</b>

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Ernie Fletcher, Governor  
Gordon C. Duke, Secretary  
Finance and Administration Cabinet  
Debra Eucker, Commissioner, Department of Law, Revenue Cabinet  
Honorable Raymond C. Smith, Knox County Judge/Executive  
Honorable Gerald K. West, Former Knox County Judge/Executive  
Members of the Knox County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Knox County, Kentucky, as of and for the year ended June 30, 2000, and have issued our report thereon dated August 4, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Knox County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The County Should Have A Written Agreement To Protect Deposits
- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- The County Should Pay Off All Note Agreements Within The Fiscal Year In Which The Notes Are Issued
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The County Should Properly Account For Payroll
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year
- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Invoices In A Timely Manner



Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Knox County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions.

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Knox County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations.

- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The County Should Properly Account For Payroll
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year
- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Invoices In A Timely Manner
- Lacked Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider all of the reportable conditions described above to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be, and should not be, used by anyone other than the specified party.

Respectfully submitted,



Edward B. Hatchett, Jr.  
Auditor of Public Accounts



## COMMENTS AND RECOMMENDATIONS



KNOX COUNTY  
COMMENTS AND RECOMMENDATIONS

For The Fiscal Year Ended June 30, 2000

NONCOMPLIANCES:

1. The County Should Have A Written Agreement To Protect Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of June 30, 2000, the county had bank deposits of \$239,532; FDIC insurance of \$200,000; and collateral pledged or provided of \$179,778. Even though the county obtained sufficient collateral of \$179,778, there was no written agreement between the county and the depository institution, signed by both parties, securing the county's interest in the collateral. We recommend the county enter into a written agreement with the depository institution to secure the county's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, (c) an official record of the depository institution.

*Former County Judge/Executive Gerald K. West's Response:*

*The agreement is currently in effect.*

2. The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds

The County Treasurer did not properly maintain a receipts ledger for all county funds. She only maintained a receipts ledger for the General Fund, Road and Bridge Fund, and the Jail Fund. She did not maintain one for any of the other funds of the county. She did maintain reconciliation reports, which showed receipts and disbursements of the funds. However, they were not in the format and did not contain the information required by the "Uniform System of Accounts" stipulated by the Department for Local Government. The receipts ledgers that were maintained for the General Fund, Road and Bridge Fund, and the Jail Fund were not properly maintained, as well. Auditors were unable to trace all receipt categories in the fourth quarter financial report back to the receipts ledger. The postings in the receipts ledger were incomplete and/or incorrect. The receipts in the financial report had to be traced back to the receipts journal and the general ledger accounts maintained by the county treasurer. The "Uniform System of Accounts" required by the Department for Local Government requires: "CASH RECEIPTS LEDGER" - a monthly compilation by fund and account code of receipts recorded in the cash receipts journal. Each item will have a separate page in the cash receipts ledger. Each ledger page will identify the name of the revenue account, the account code and the amount budgeted. A monthly total is posted and a cumulative total is maintained. At the end of each quarter, the year-to-date figure is carried directly to the treasurer's portion of the quarterly financial statement." We recommend that the County Treasurer comply with the "Uniform System of Accounts" by properly maintaining a receipts ledger for all county funds.

*Former County Judge/Executive Gerald K. West's Response:*

*Computer system was not setup for these appropriations and receipts. A new system is now installed to make all postings.*

KNOX COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

NONCOMPLIANCES: (Continued)

3. All County Employees And Officials Should Receive The Same Medical Insurance Coverage

The county is paying for family medical insurance coverage on certain individuals. Single medical coverage is paid on the majority of county personnel. We recommend the fiscal court review this disparity and insure the county personnel policy reflects the results of the review.

*Former County Judge/Executive Gerald K. West's Response:*

*Agree with and aware of the issue.*

4. The County Should Pay Off All Note Agreements Within The Fiscal Year In Which The Notes Are Issued

On April 10, 1997, the Knox County Fiscal Court borrowed \$96,727 from Union National Bank to purchase a 1996 road grader. The money was borrowed at a 5.45% interest rate and to be repaid over a period of five years. The loan agreement requires semi-annual payments of \$11,182. As of June 30, 2000, the principal balance outstanding was \$41,838. KRS 65.7707 states that "Notes payable shall mature on a date determined by the governing body which shall be no later than the last day of the fiscal year in which the notes are issued." This liability was paid off during FYE June 30, 2001. We recommend that the county comply with KRS 65.7707 in the future, by paying off all note agreements within the fiscal year that the notes are issued.

*Former County Judge/Executive Gerald K. West's Response:*

*Corrected.*

NONCOMPLIANCES AND REPORTABLE CONDITIONS:

5. Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements

We found budget amendments and transfers not posted or improperly posted in the financial records and thereby, incorrectly reported on the quarterly financial statement. This condition allowed inaccurate financial reports to be prepared, used by the fiscal court, and filed with the Department for Local Government. Appropriation line items had incorrect totals allowing several accounts to be overspent, when funds were available to be transferred. We recommend budget amendments and transfers be properly posted, reconciled, and reported on in the financial records and quarterly reports. We recommend the county treasurer follow the Uniform System of Accounts, established under the authority of KRS 68.210 which established guidelines for posting and recording budget amendments and transfers.

*Former County Judge/Executive Gerald K. West's Response:*

*Posting and budgeting transfers are presently posted correctly.*

KNOX COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

6. The County Treasurer Should Properly Prepare Quarterly Financial Statements

We found numerous errors on the 4<sup>th</sup> Quarter Financial Report. The county treasurer posted receipts and expenditures to incorrect receipt and expenditure accounts. We also found several instances where cash transfers out of one fund were posted as receipts in another fund. This resulted in operating receipts being overstated on the financial statements. We had to make numerous adjustments to the County Treasurer's 4<sup>th</sup> Quarter Financial Statement in order for the financial statements to be materially correct when reported in the audit report. We recommend that the county treasurer properly prepare the 4<sup>th</sup> Quarter Financial Statement in the future in order for the financial statements to be properly stated.

*Former County Judge/Executive Gerald K. West's Response:*

*Posting and transfers are presently reported correctly.*

7. The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds

The County Treasurer and the County Finance Officer did not prepare an Appropriations Ledger for the Local Government Economic Development Fund, Manufacturer Services Fund, Kay Jay Recreation Fund, Timberland Tax Fund, 911 Fund, Solid Waste Fund, Community Development Block Grant Fund, and JAIBG Fund. The County Treasurer did prepare an Appropriations Ledger for the General Fund, Road & Bridge Fund and the Jail Fund. However, the ledger sheets did not contain a running total of expenditures or a running total of the free balance of the budget appropriations. The Uniform System of Accounts, as established by the Department for Local Government (DLG) requires the county to maintain "APPROPRIATION LEDGER(S) - the ledger reflects, by account number, the original budget appropriation, the payee, increase/decreases by amendment or transfer, expenditures, and remaining balance. A page for each budgeted line item must be maintained in the ledger. The appropriation expenditure ledgers are to be maintained independently by the office of the county Judge/Executive and the county treasurer. Reconciliations should be made at least monthly in order to insure accuracy. Counties utilizing computers to maintain books of accounts in the treasurer's office must maintain an appropriation expenditure ledger within the office of the county judge/executive independently from the computer system in the treasurer's office." We recommend that the county treasurer fully comply with the Uniform System of Accounts, by properly maintaining an Appropriation Ledger.

*Former County Judge/Executive Gerald K. West's Response:*

*A new computer system is now installed to correct these problems.*

KNOX COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

8. The County Judge/Executive Should Present All Claims To The Fiscal Court For Review

The County Judge/Executive did not present all claims to the fiscal court. KRS 68.275(2) states the County Judge/Executive shall present all claims to the fiscal court for review prior to payment and the court for good cause shown, may order that a claim not be paid. We recommend the County Judge/Executive comply with KRS 68.275(2) by approving all claims prior to payment being made.

*Former County Judge/Executive Gerald K. West's Response:*

*All claims are presently being presented to the court for approval before payment is made.*

9. The County Should Properly Account For Payroll

We found the following deficiencies during our test of payroll:

- a. We were unable to find personnel files for all county employees selected for testing;
- b. The county was unable to provide us with annual earnings records so that we could reconcile payroll records to W-2 forms;
- c. Timesheets could not be located for all employees selected for testing;
- d. We were unable to find where the fiscal court approved salaries for county employees.

We recommend that the county properly maintain payroll records in the future, by correcting the above listed deficiencies.

*Former County Judge/Executive Gerald K. West's Response:*

*Timesheets and reports are presently being kept. All personnel records are current.*

10. The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year

The County Treasurer did not prepare an annual settlement and did not make a full and complete settlement with the fiscal court for Fiscal Year Ending June 30, 2000. KRS 424.220 "requires public officers who receive or disburse public funds to prepare an itemized, sworn statement of all funds collected, received, held, or disbursed during the fiscal year." The financial statement is required to show:

- "the total amount collected and received from each individual source,"
- "the total amount of funds disbursed to each individual payee and the purpose for which expended. The amount of salaries paid to all nonelected county employees shall be shown as lump sum expenditures by category such as road department, jails, solid waste, public safety, and administrative personnel."

KNOX COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

NONCOMPLIANCES AND REPORTABLE CONDITIONS: (Continued)

10. The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year (Continued)

---

The financial statement must also have attached:

- “a certificate from the cashier or other proper officer from the banks in which the funds are or have been deposited during the past year, showing the balance, if any, of funds to the credit of the officer making the statement.”
- “a factual list of individual salaries is required to be prepared and available for public scrutiny and furnished by mail to the newspaper which may publish the list as a news item.”

KRS 68.020 requires the County Treasurer to make full and complete settlement with the fiscal court within 30 days of the close of the preceding year. All statements, vouchers, and other paper relating to the annual settlement must be filed in the office of the county clerk. We recommend that the County Treasurer comply with KRS 424.220 and KRS 68.020 by preparing an annual settlement and making full and complete settlement with the fiscal court within 30 days of the close of the preceding fiscal year, in the future.

*Former County Judge/Executive Gerald K. West's Response:*

*Annual Settlements are prepared under a more advanced computer system.*

11. Adequate Supporting Documentation Should Be Maintained For All Expenditures

During our test of expenditures, we found that adequate supporting documentation was not maintained for some county expenditures. An invoice should be on file

*Former County Judge/Executive Gerald K. West's Response:*

*Adequate supporting documentation is being kept at the present time.*

12. The Fiscal Court Should Pay Invoices In A Timely Manner

During the course of our audit, we found that numerous invoices were not paid in a timely manner. KRS 65.140 states that all bills for goods or services shall be paid within thirty working days of receipt of vendor's invoice except when payment is delayed because the purchaser has made a written disapproval of improper invoicing by the vendor or by the vendor's subcontractor. We recommend that the county comply with KRS 65.140 by paying invoices within thirty working days.

*Former County Judge/Executive Gerald K. West's Response:*

*All invoices are now being paid timely. These were old invoices from prior administration.*

KNOX COUNTY  
 COMMENTS AND RECOMMENDATIONS  
 For The Fiscal Year Ended June 30, 2000  
 (Continued)

REPORTABLE CONDITIONS:

13. Lacked Adequate Segregation Of Duties

The Knox County Fiscal Court has a weakness in their internal controls due to a lack of segregation of duties. We recommend that a qualified office employee independent of check writing and posting duties match purchase orders to checks and invoices. Also, we recommend that the person opening the mail keep a listing of all checks received for that day, detailing the date received, the check amount, who it is from, and what the check is for. This will help segregate the duties of the Treasurer and may reduce audit costs in the future. Initialing the purchase orders and invoices, by this person, and making sure the invoices are marked paid can be shown as evidence of these segregation of duties. To have better internal controls, it is a best practice to keep the receipt of cash, the disbursements of cash, and the posting of cash to the ledgers delegated to separate individuals.

*Former County Judge/Executive West's Response:*

*Internal controls are followed as closely as possible.*

PRIOR YEAR FINDINGS

- The County Treasurer Should Properly Maintain A Receipts Ledger For All County Funds
- All County Employees And Officials Should Receive The Same Medical Insurance Coverage
- Budget Amendments And Transfers Should Be Properly Recorded In Financial Statements
- The County Treasurer Should Properly Prepare Quarterly Financial Statements
- The County Treasurer and Finance Officer Should Properly Prepare An Appropriation Ledger For All County Funds
- The County Judge/Executive Should Present All Claims To The Fiscal Court For Review
- The County Should Properly Account For Payroll
- The County Treasurer Should Prepare An Annual Settlement, And Make A Full And Complete Settlement With The Fiscal Court For The Fiscal Year
- Adequate Supporting Documentation Should Be Maintained For All Expenditures
- The Fiscal Court Should Pay Invoices In A Timely Manner



CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS

KNOX COUNTY FISCAL COURT

For The Fiscal Year Ended  
June 30, 2000

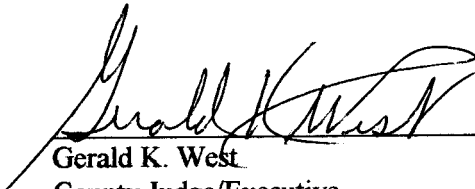
**CERTIFICATION OF COMPLIANCE**

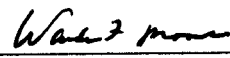
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE AND DEVELOPMENT PROGRAMS**

**KNOX COUNTY FISCAL COURT**

**Fiscal Year Ended June 30, 2000**

The Knox County Fiscal Court hereby certifies that assistance received from the Local Government Economic Development Program and Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.

  
\_\_\_\_\_  
Gerald K. West  
County Judge/Executive

  
\_\_\_\_\_  
Wanda Moore  
County Treasurer

